

# Kirtland Air Force Base Housing Privatization

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September 27-28, 2000





## THE KGP TEAM

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## GOAL OF KIRTLAND AFB PRIVATIZATION PROJECT

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- Provide its military families access to safe, quality, affordable housing in a community where they will choose to live.
- Privatize all of Kirtland's military family housing by leveraging available resources utilizing certain MHPI Authorities.
- Accelerate housing renovations, alleviate housing shortages and reduce waiting times for new housing, ultimately improving morale of Air Force personnel.
- Achieve long term land use plans by relocating and consolidating all housing to the eastern side of the base.



## OVERVIEW OF PROJECT

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- Long term lease (up to 50 years)
- Demolition of 1,573 obsolete on-base housing units, construction of 953 new units, and long term management, operation and maintenance of those 953 units plus 211 existing units that were recently constructed
- Successful Offeror accepts the Basic Allowance for Housing (BAH) less 110% of average utilities as the full amount of the monthly rent
- Successful Offeror invests at minimum 6% of the total project cost as cash equity. SO finances the balance of the cost of demolition and construction through debt secured by the its interest in the lease
- Air Force contributes leased real property and improvements
- Air Force may guarantee a senior loan, and may provide a direct junior loan on subsidized terms



## MHPI - An Overview

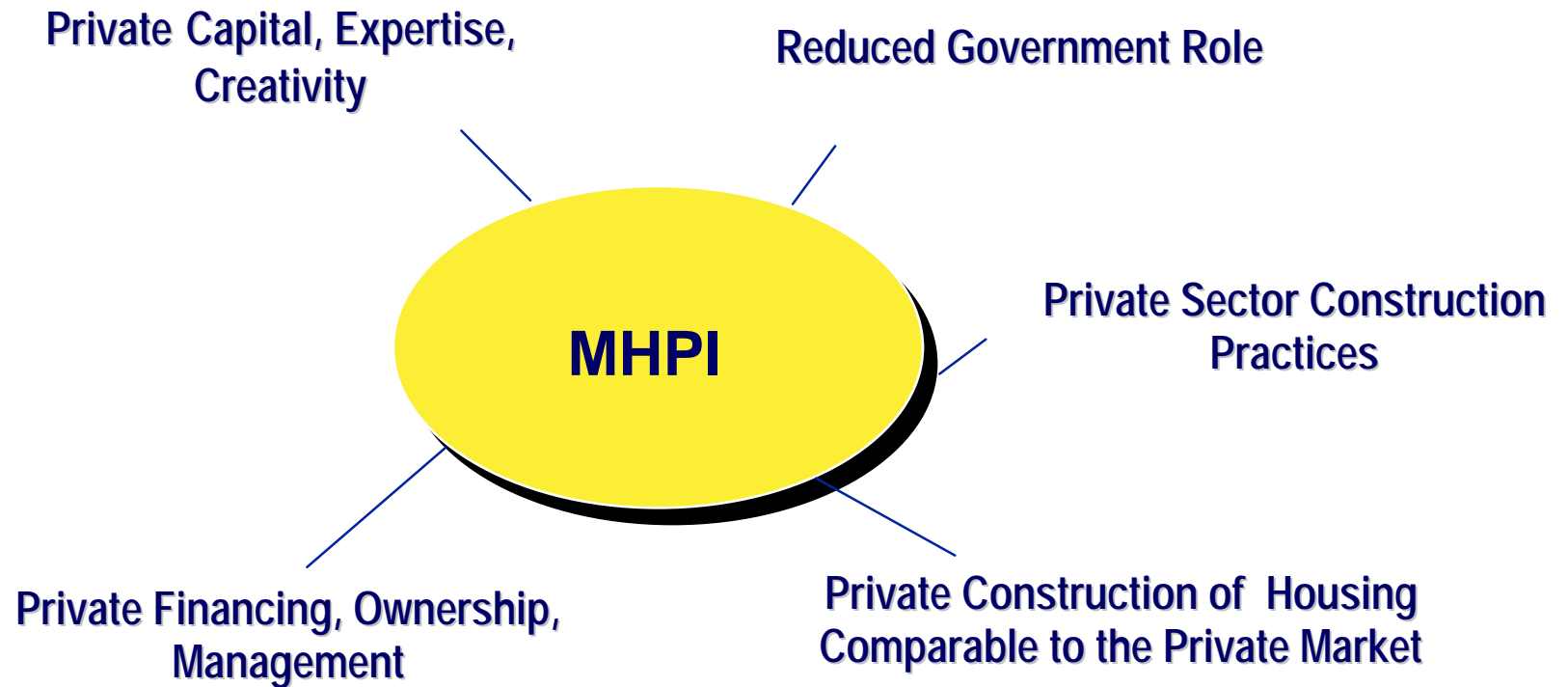
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- To help meet ongoing military housing needs, Congress authorized the Military Housing Privatization Initiative (MHPI) in the National Defense Authorization Act of 1996
- The MHPI is the military's vehicle for improving the quality and quantity of its housing
- It provides various real estate and financial tools to help create innovative solutions to the current military housing deficit through public/private transactions



## MHPI - An Overview

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# PSC APPROACH

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- Private sector orientation
- Not subject to Federal Acquisition Regulations
- Accelerated procedures



## PSC ROLE IN SOLICITATION

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- Support USAF in design of the process and of the privatization transaction
- Assist in marketing and other aspects of implementation
- Review submissions and recommend evaluations
- USAF makes all selection decisions





## TWO-STEP RFP PROCESS

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- The strategy for the Kirtland AFB housing privatization initiative is to utilize a streamlined, two-step, non-FAR, "Best Value" solicitation process that encourages maximum flexibility in proposal development
- The purposes of utilizing the two-step process are to allow offerors to respond to Step One in a timely and cost effective manner, and to allow the government to down-select expeditiously to a reasonable number of offerors to proceed to Step Two



## STEP ONE- QUALIFICATIONS

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- Offerors submit:
  - Qualifications - residential developments, >\$25 million within preceding 10 years
  - Experience, project references
  - Approach - Management and Technical
  - Financial statements, credit references
  - Preliminary proforma for project
  - Access to financing
    - Lender letter, “highly confident”
    - Commitment may be conditional
  - Project Concept



## EVALUATION OF STEP ONE SUBMITTALS

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- Integrated assessment of organizational, technical, financial qualifications and performance risk
- Evaluation of the offeror's ability to meet all project requirements, especially when considered in context of past performance results actually achieved
- Down-select to limited number of qualified offerors



## STEP TWO- FINANCIAL AND TECHNICAL PROPOSAL

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- Business Arrangements
  - Financial structure
  - Debt
    - Private
    - Air Force participation (guaranty or subsidized terms)
- Financial Projections and Budgets
- Sources and projected returns on equity
- Design and Construction
- Project Management



# EVALUATION OF FINANCIAL AND TECHNICAL APPROACH

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- Best Value
- Integrated assessment of Past Performance and proposed financial and technical elements
- Reasonableness, completeness, realism
- More important factors
  - Past Performance
  - Business Arrangements, Financial Plan and Structure
- Less important factors
  - Design and Construction
  - Real Estate Management



## LEASED PROPERTY / DEMOLITION AND CONSTRUCTION

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- **Leased Property**--Air Force to convey its interest in 1,784 existing housing units and certain associated improvements
  - Air Force will lease approximately 650 acres of land divided into the following six separate parcels:
    - Lease of West Capehart parcel expires in three years
    - Lease of Zia Park parcel expires in six years
    - Lease of Maxwell parcel expires in between six and sixteen years
    - Lease term of 50 years for East Capehart, Loop and New Pershing parcels
  - Successful Offeror will demolish all but 211 New Pershing units within ten years and build 953 new units within six years of transaction closing
- **Demolition/Construction**--Units shall consist of three-and-four bedroom single-family units and two, three and four bedroom multiplex units. Unit mix shall be as follows:
  - 831 two bedroom units
  - 236 three bedroom units
  - 97 four bedroom units
- Successful Offeror also to construct certain recreational facilities



## Military Family Housing

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New Pershing	211 Units
East Capehart	251 Units
Loop	198 Units
Zia Park	759 Units
West Capehart	141 Units
Maxwell	224 Units
<b>TOTAL</b>	<b>1784</b>



## PHASING PROCESS

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- New Construction and Maintenance of 1164 units
  - The project requires the construction of 953 new units within six years of the closing of the transaction
  - 211 units in New Pershing to be maintained
- Demolition of 1573 existing units
  - 141 units to be demolished in West Capehart--by the end of year 3 (lease terminated and land returned to AF control)
  - 1208 units to be demolished by the end of year 6:
    - 759 units to be demolished in Zia Park by the end of year 6(lease terminated and land returned to AF control)
    - 251 units to be demolished in East Capehart
    - 198 units to be demolished in Loop
  - 224 units to be demolished in Maxwell any time after the end of year 6 but no later than year 16 (lease terminated and land returned to Air Force control)

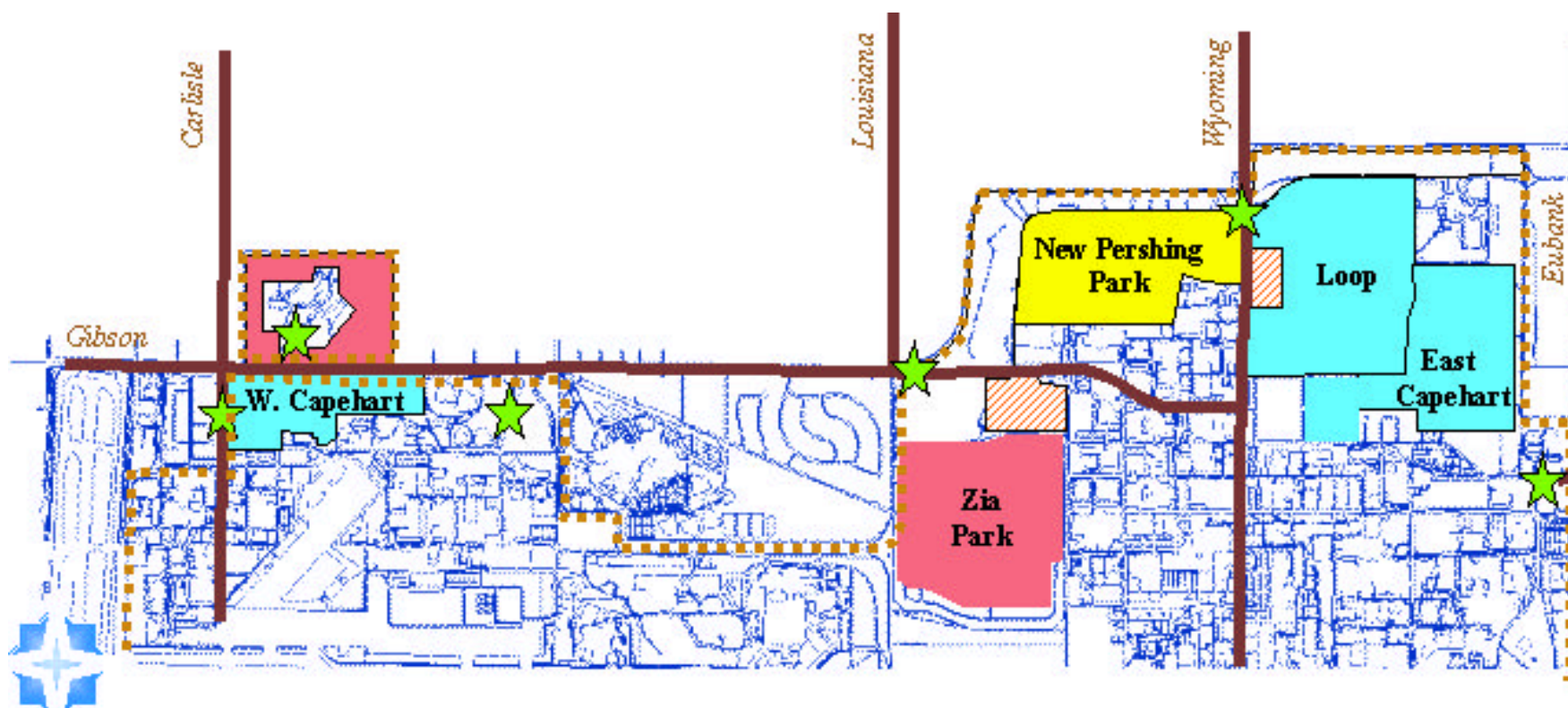




# Existing Base Housing

- Inadequate Housing
- Degraded housing
- Adequate housing (FY96 MILCON)

- Albuquerque Public School
- Existing Fenceline
- Existing Guardhouse





## TIMELINE FOR CONSTRUCTION

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- The RFP does not prescribe the time within which construction must begin, but it has set time limits for the maximum “pre-demolition” rental periods for the 1,573 existing older units
- The limits range from three to six years for most units, and up to 16 years for Maxwell housing
- The Successful Offeror must demolish these older units within these respective time limits
- The recently 211 constructed units are not to be demolished unless the Air Force so chooses at the end of the 50 year lease



## Long Term Modernization / Operations & Property Mgmt.

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- Within 25 years of original date of construction, the Successful Offeror shall complete a modernization of all 1,164 units including but not limited to:
  - Updating unit functionality and space requirements
  - Integration of new technologies
  - Modernization of units, including energy efficiencies
  - Updating Architectural finishes
  - Electrical and mechanical systems
- Successful Offeror will be required to operate and maintain all existing units in habitable condition until, if applicable, the units are demolished
- RFP has requirements concerning the rents for all conveyed, occupied units
- Successful Offeror shall be responsible for the payment of all operating expenses
- The Successful Offeror's utilities metering and payment arrangements must accommodate this Kirtland AFB's transition to privatized utilities



## Results of EBS Investigation

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- Asbestos present in housing areas (mostly non-friable)
- Lead paint detected in several interior and exterior components
- Lead detected in soils (but not above regulatory levels)
- Chlordane detected in soils - Pershing and Loop (but not above regulatory levels)



## Recommendations for EBS Study

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- Asbestos and lead should be abated prior to renovation/demolition
- Soils with traces of chlordane should be left in place
- Category 3 - contamination present but falls below action levels



## FINANCING

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- Successful Offeror is responsible for arranging necessary construction/debt financing and equity
- The government may provide certain financial vehicles to assist the Successful Offeror in obtaining financing as follows:
  - Government Limited Loan Guarantee to an approved private lender that makes a permanent loan to the Successful Offeror
  - Direct Government Second Loan
    - Can only be a permanent loan and may be disbursed in phases (but no more than three) with respect to the newly constructed units
    - Term shall be no longer than 30 years
- *The Air Force may pay a subsidy cost to provide the financial vehicles*
- Cross Collateralization/Cross Default Provisions prohibit the SO from cross collateralizing and/or cross defaulting this asset with any other assets or assigning, pledging, hypothecating, or otherwise transferring any interest in the net cash flows and/or ownership of the improvements



## FINANCING - Government Limited Loan Guarantee

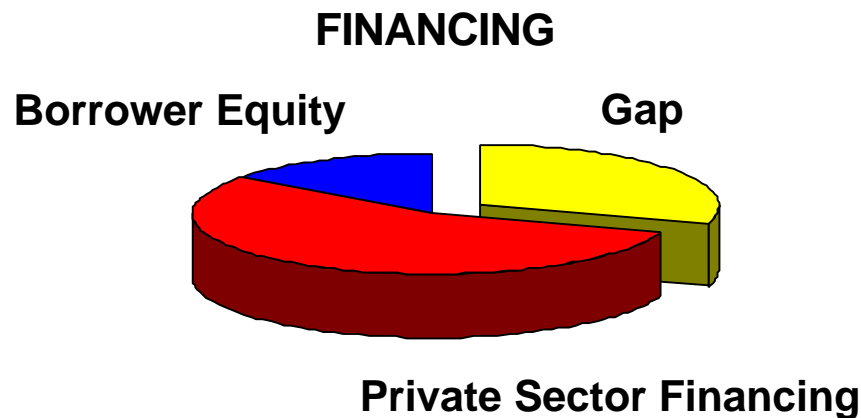
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- DoD may guarantee loans for military housing projects made by private sector lenders
- The current loan guaranty is "limited", and is designed to protect private sector lenders against mortgage payment defaults caused by base closure, downsizing or deployment



## FINANCING - Direct Government Junior (Second Loan)

- DoD can lend money in the form of a subordinate Direct Loan to finance all or a part of a privatized military housing project
- The Direct Loan is used to close the development gap through favorable loan terms for projects with insufficient Net Operating Income (NOI) to support total project development costs







## Lease of real property, conveyance of improvements:

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- Total of 1,784 existing units
- Ultimate total of 1,164 units



## Rent:

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- One Dollar
- Foreclosing lender. At option of Government, fair market rental value



## Term:

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- West Capehart: 3 yrs.
- Zia Park: 6 yrs.
- Maxwell: 6 - 16 yrs.
- All else: (East Capehart, New Pershing and Loop): 50 years



## Termination:

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- Government may require removal and restoration
- Negotiate extension
- Government may acquire the improvements if authorized by appropriate legislation



## Environmental:

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- Developer responsible for disposing of asbestos-containing material



## Construction:

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- City standards
- Certificates of Occupancy - Groups of not less than 8 contiguous
  - Trigger 2-year warranty period



## Tenants:

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- Form of tenant lease provided
- Priority to military, coordinated through Kirtland AFB Housing Office
- Non-military: Only if occupancy falls below 95% for any three-month period
  - Bring up to 5%
- Military Clause - Right to terminate on 30 days notice if due to military orders or discharge



## Escrow Accounts and Reserves:

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- Monthly deposits
- All interest-bearing
- Disbursements require Government approval





# Specific Accounts:

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- Lockbox Account: All project rents and revenues
- Replacement Reserve Account: Capital renovations and improvements
- Construction Escrow Account: Deposit operating income over customary operating expenses (including permanent loan debt service)
- Imposition Escrow Account: Taxes, insurance, assessments
- Performance Deposit Account: Security for performance of agreements
- Reinvestment Account: Fully fund modernization/renovation after 25 years
- Tenant Security Deposit Account: Tenant security deposits



# Windfall Income Account:

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- Deposits: 100% of Windfall income
- Windfall income = Congressional changes to calculation of Basic Allowance for Housing
- Disbursements:
  - Principal prepayments on direct government loan
  - Principal prepayments on government-guaranteed loan
  - Reinvestment Account



# QUESTIONS

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- Questions?
- Icebreaker--Mountain View Club